



Mayor Jerry Sanders' Comments on the SEC Settlement with the City of San Diego

Thirty three months ago, the United States Securities and Exchange Commission, or SEC, launched an investigation into the financial disclosure practices of the City of San Diego.

Today's announcement that we have reached a settlement with the SEC marks a major milestone in San Diego's emergence from the financial wilderness.

This morning, the U.S. Securities and Exchange Commission formally informed the City and the investor community that it has ordered the City of San Diego to cease and desist from any future fraudulent activity with respect to our legal obligation to accurately disclose the City's liabilities.

Today is a day of transitions. Today, we transition from a focus on our past to a focus on our future. From a focus on what we did so wrong to what we can do right and how we can serve as an example to the rest of the country.

The fact that a federal agency has found our city to have acted with scienter – in essence, intentional deception – is unacceptable.

The very reason I ran for office was because I thought that conduct of this type was most offensive. We have clearly turned a corner.

As an entity, the City has recognized the error of its ways and willingly cooperated throughout the SEC's investigation and has agreed to establish remedial measures to ensure that this kind of activity can never and will never happen again.

That will be the hallmark of our unfortunate experience. Notably, the SEC credits the City for having already implemented a host of reform measures.

The SEC did not impose a fine on the City, as its tradition with respect to government agencies.

During their investigation, the SEC examined 5 distinct bond offerings worth approximately \$260 million. I think it bears mentioning that the City has always honored its obligation to the individuals and entities that purchased our bonds, that no bond holder ever lost any money and that at present, there are only \$60 million in outstanding commitments.

The SEC primary goal is to protect investors – clearly that is a community that is of great importance to our city,

especially since we hope to re-access public capital next year. But my responsibilities also extend to our local taxpayers.

Herein lies the importance of lasting remedial measures such as clearly articulated financial controls and a new financial computer system.

In the order, you will note that the SEC has ordered an independent consultant and monitor for a three year period of time. We will work collaboratively with the SEC to define the scope of this responsibility.

The City believes that the independent consultant function called for by the SEC and the monitor role that I previously called for can be reconciled and performed by the same person.

The bottom line here is that the SEC will continue to hold us accountable to ensure that we have in fact rebuilt our house and will not allow the conduct the found unacceptable to persist in the future.

As this chapter in San Diego's financial crisis comes to a close, we will now turn our attention to focusing on remedial measures and to re-accessing the public financial markets next year.

As you know, we are working closely with KPMG to get an opinion letter on our 2003 financial statements and soon

thereafter will look to Macias-Gini for opinion letters on our 2004 and 2005 financial statements.

This settlement with the SEC would not have been possible without the perseverance of City Attorney Mike Aguirre and outside counsel John Hartigan of the law firm of Morgan Lewis.

As many of you know, the City Attorney made the pursuit of an SEC settlement for the City a top priority of his office and he is to be commended for his perseverance.

I also want to thank the City Council for having unanimously endorsed this sanction as a way of moving the City forward.